

BUDGET / TAGGING INSTRUCTIONS

Revised July 13, 2015

This document provides detailed information on creating group categories during the budgeting process, bonus point information, and how to create a qualified expenditure budget. Please read the Guidelines 2.0 for a full explanation regarding the jobs ratio ranking and additional 5% tax incentive for non-independent productions.

INDEPENDENT PRODUCTIONS - RELOCATING TV SERIES - NON-INDEPENDENT PRODUCTIONS WITHOUT "UPLIFT" EXPENDITURES

Independent productions and Relocating TV Series do not qualify for the 5% additional tax credits ('uplifts') and therefore do not need to create budget groups for uplift related costs. These productions, along with non-independents without uplift expenditures, need only 3 or 4 tagging groups:

QW Qualified Wages

QE Qualified Expenditures (non-wage)

NQ Non-Qualified Costs in California (Add "XX" for NQ costs outside of CA)

Applicants which fall under this category may skip the next section, which refers to coding for non-independent productions with uplift expenditures.

NON- INDEPENDENTS WITH UPLIFTS - GROUP CATEGORIES

Productions that have "uplift" spend will need to add the applicable tagging groups: Visual Effect (**VU**), music scoring/track recording (**MU**), and/or out-of-zone costs (**ZW**) for qualified wages outside the zone), as well as a category to exclude post-production expenditures, legal, and insurance. These items should be tagged as (**PST**) and are noted in **RED** on the QEC.

VU Visual Effects

MU Music Scoring / Track Recording

ZW Out-of-Zone Qualified Wages

PST A category to exclude post-production expenditures, legal, bond, and insurance; these items should be tagged and are noted in **RED** on the QEC

Important information when tagging for Out-of-Zone (OZ) "uplift" expenditures: (Non-Independents Only)

- If a Principal Photography day is split between in the zone and out of the zone, the day must begin with the first location OZ to be considered a principal photography day OZ.
- OZ uplift only applies to work associated with filming original photography (principal photography and/or reshooting original footage) out of the LA zone. Post production out of the zone does not qualify for this uplift.
- ZW Wages: Applies only during the "applicable period", which is prep, shoot, and time needed to strike sets in the OZ location.
- OZ labor costs will be the actual labor costs for work performed OZ.
- OZ non-labor costs (purchases, rentals, and contracted services) will be calculated via the on-line application portal by taking the total budgeted non-labor costs (excluding post production, legal, bond and contingency – tagged "PST" and noted in **RED** in the qualified expenditure charts) and prorating it by the percentage of principal photography days OZ in relation to total principal photography days in the state.
- OZ materials that are totally consumed (as defined in the regulations, e.g., fuel, food, dry cleaning, location site rentals, security guards, etc.) can be tagged separately with ZE if desired. If documentation is sufficient, the cost of these items will be credited 100% toward the tax credit (not prorated). If they are not specifically documented, they will be prorated along with non-consumable OZ purchases and rentals.

BUDGET / TAGGING INSTRUCTIONS

For Visual Effects “uplift” expenditures: (Non-Independents Only)

- VFX expenditures in-state must equal at least \$10 million dollars OR 75% of total VFX costs in order to qualify for the uplift.
- The VFX costs which qualify for the 5% uplift are primarily vendor payments for VFX processes, such as previz, postviz, Lidar, element creation, CG shot costs. Labor that is paid directly by the production company and whose primary staff function is visual effects, such as VFX Supervisor, VFX Coordinator, VFX Editor, CG Artist, as well as their computer rentals, will also qualify for the uplift. (Refer to Qualified Expenditure charts – all VFX costs which qualify for the uplift are in **GREEN**)

For Music Scoring and Track Recording “uplift” expenditures: (Non-Independents Only)

- All qualified wages and expenditures (incurred in California) listed in the qualified expenditure charts under music noted in **GREEN** qualify for this uplift.

Calculation of Uplift Expenditures for Qualified Expenditures over \$100 million:

- If qualified expenditures total more than the \$100M qualified spend cap, VFX and/or Music expenditures which qualify for uplifts must be calculated on a total budget percentage basis. For example, if out of \$130M QS, \$10M is VFX spend eligible for the uplift, one would calculate that the VFX is 7.6% of the total QS (\$10M divided by \$130M = .076). Therefore, the additional 5% tax credit on 7.6% of \$100M is \$384,000 (\$7,600,000 x 5%).

QUALIFIED WAGES PROCESSED THROUGH PAYROLL

All of the payments below, taxable or non-taxable, are considered QUALIFIED WAGES (QW) when the salary of the individual or entity is qualified labor. Only wages paid through the production's payroll service or directly by the production company to an individual or their loan out company can be considered wage.

- Meal Penalties / Allowances
- Car Allowance
- Mileage
- Per Diem
- Housing Allowance

NON-WAGE EXPENDITURES

All purchases and rentals are considered non-wage expenditures. This includes contractor labor (payments not made through a payroll company). These include invoices via a contracted company and include security guards, police, firemen, site reps (if not paid directly by production company).

Box Rentals and Cell phone allowances/rentals from individual (taxable/nontaxable) whether paid through payroll or invoiced separately are considered Qualified Non-wage (QE).

- *Box Rentals*
- *Cell phone allowances or rentals from individual*

TO CREATE A QUALIFIED EXPENDITURE BUDGET

- 1) Once you finished grouping all qualified & nonqualified expenditures as per the tagging methodology, go into your group settings & exclude the non-qualified expenditures from your budget total.
- 2) Go into your fringe set up function and delete or zero out all non-qualified fringes: FICA, FUI, FUTA, MEDICARE. It is important to separate out the federal fringes from other fringes, otherwise you will have to go back into those “lump sum” fringes (for example, having one non-union amount that contains both state and federal fringes) and subtract the non-qualified federal fringes.
- 3) Insurance costs should reflect your total premium, minus out of state work, Error and Omissions coverage and/or Essential Element coverage.
- 4) Completion Bond costs can be no more than 2% of qualified expenditures. Must exclude bond costs for any out of state filming.
- 5) Contingency can be no more than 10% of qualified expenditures. On the application, 50% of the contingency is apportioned as qualified wages and 50% to qualified non-wage expenditures.

THIS METHODOLOGY IS MORE ACCURATE THAN CREATING A SUB-BUDGET. WHEN A SUB-BUDGET IS CREATED, THE FRINGE TABLES AND CUT-OFFS START OVER, WHICH RESULTS IN AN OVERESTIMATION OF FRINGES.

TAGGING METHODOLOGY FOR BUDGETING

BASE INCENTIVE TAGGING

The total of these amounts must match Gross Budget

GROUP NAME	INCENTIVE %	GROUP DESCRIPTION	ADDITIONAL INFORMATION
QW	20%	CA Qualifying Wages	See CA Expenditure Chart and Guidelines for details.
QE	20%	CA Qualifying Expenses (non-wage)	See CA Expenditure Chart and Guidelines for details.
NQ	0%	All Non-Qualifying CA Wages/Expense	See CA Expenditure Chart and Guidelines for details.
XX	0%	All Non-Qualifying Non-CA Wages/Expense	

Note: Relocating Series (1st season) and Independent Films qualify for a 25% tax credit

OVERLAY/ADDITIONAL TAGGING (for Budget Uplift calculations only)

If project has Qualifying VFX, MUSIC or OUTSIDE THE ZONE Wages or Expenses

GROUP NAME	INCENTIVE %	GROUP DESCRIPTION	ADDITIONAL INFORMATION
VU	5%	<u>VFX Uplift</u>	The uplift mainly applies to all Qualifying <u>Post Production Period</u> Wages and Expenses. It does not include shooting unit work (Example: Plate Units, Green Screen shoot). Applicable VFX costs in the budget will have either a QW or QE <u>AND</u> a VU tag. Productions must spend at least \$10Million or 75% of total VFX spend to qualify for this uplift. See Qualified Expenditure Charts (QEC) for VFX noted in GREEN which qualify for this uplift.
MU	5%	<u>Music Uplift</u>	The uplift only applies to Qualifying Music Scoring and Track Recording Wages and Expenses (as noted in GREEN in the QEC) . These costs in the budget will have either a QW or QE <u>AND</u> a MU tag.

TAGGING METHODOLOGY FOR BUDGETING (cont.)

OVERLAY/ADDITIONAL TAGGING (for Budget Uplift calculations only) [cont.]

If project has Qualifying VFX, MUSIC or OUTSIDE THE ZONE Wages or Expenses

GROUP NAME	INCENTIVE %	GROUP DESCRIPTION	ADDITIONAL INFORMATION
ZW	5%	Out of <u>Zone</u> W ages <u>U</u> plift	The uplift only applies to Qualifying Wages Outside the Zone related to principal photography (PP); can include prep, shoot, and strike periods - "Applicable Period" - as long as incurred Outside the Zone and related to PP shoot days. All Wage related budget lines must be broken out within the budget.
For Example:	QW	Prep: LA	\$5,000
	QW, ZW	Prep: Outside the Zone	\$1,000
	QW	Shoot: LA	\$20,000
	QW, ZW	Shoot: Outside the Zone	\$5,000
	QW	Wrap: LA	\$2,500
	QW, ZW	Wrap: Outside the Zone	\$500
PST	Adjustment to QE	Outside the Zone Expenses Adjustment (Non Production Period related expenses that are Excluded from this Equation - PRIMARILY POST PRODUCTION - do not qualify)	The calculation for expenditures outside the zone is a percentage (based on % of PP days outside the zone in relation to total PP days in CA) of total qualified expenditures MINUS post production, legal, bond, insurance and contingency. Therefore, it is important to tag all post-production expenses (e.g., post sound, film and lab, vfx, music, titles) plus excluded amounts with PST so you can subtract them from the QE. <u>QE - PST = Production Only Qualifying Expenses</u> - this tag will allow for the proper calculation when applying Incentive Credit within the budgeting program.
For Example:	QE, PST	Post-Production Office Supplies	\$3,000
	QE, PST	Production Legal Fees	\$35,000
	QE, PST	Insurance Package	\$150,000

Note: Uplifts do not apply to Relocating Series (1st season) or Independent Films.

SUGGESTED FREE FIELD TAGGING for ACTUAL COSTS

FREE FIELD 1	FREE FIELD 2 Only for Non-Independents		
Base Incentive	Uplift Incentive		
QW	VU, MU, or ZW (if applicable)	QUALIFIED WAGES	These costs will qualify for 20%.
QE	VU, MU, or ZE (if applicable)	QUALIFIED NON-WAGE / EXPENSES (PRODUCTION PERIOD)	These costs will qualify for 20%.
QE	PST	QUALIFIED NON-WAGE / EXPENSES (POST-PRODUCTION PERIOD)	The calculation for expenditures outside the zone is a percentage (based on % of PP days outside the zone in relation to total PP days in CA) of total qualified expenditures MINUS post production, legal, bond, insurance and contingency. Therefore, it is important to tag all post-production expenses (e.g., post sound, film and lab, vfx, music, titles) plus excluded amounts with PX so you can subtract them from the QE. QE - PST = Production Only Qualifying Expenses - this tag will allow for the proper calculation when applying Incentive Credit within the budgeting program.
QE	VU	VFX UPLIFT	These costs will qualify for 5% uplift.
QE	MU	MUSIC UPLIFT	These costs will qualify for 5% uplift.
QE	ZE	OUTSIDE THE ZONE - CONSUMABLE EXPENSES UPLIFT	Optional: Items that are totally consumed outside the LA zone are eligible for 100% of purchase price towards 5% uplift (versus a tax credit based on the % of PP days) if tracked and verified. See Appendix A in Guidelines for a listing of total consumables.
QW	ZW	OUTSIDE THE ZONE - WAGES UPLIFT	These costs will qualify for 5% uplift.
NQ		NON QUALIFIED CA WAGES / EXPENSES	These costs do not qualify for the Incentive but were incurred in CA.
XX		NQ OUTSIDE CA	Non-Qualified costs outside of California

Note: the 5% Uplift for non-wage Expenses Outside the Zone will be calculated based on "QE" minus "PX" times Actual % of Shoot Days Outside the Zone

SUGGESTED FRINGE SET UP IN BUDGET

It is suggested that budgets be set up with the following Fringe breakdown as Federal Fringes and others must be excluded from CA tax credit calculations. Non-Qualifying Fringe must be separated when budgeting.

Note: CA Film Commission will not accept budgets with ALL-INCLUSIVE fringe rates that include Non-Qualifying Fringe.

Exclude from your Incentive Budget	FEDERAL	FUI	UNEMPLOYMENT INSURANCE
Exclude from your Incentive Budget	FEDERAL	FICA	FICA - SOCIAL SECURITY
Exclude from your Incentive Budget	FEDERAL	MED	FICA - MEDICARE
Include in your Incentive Budget	CALIF	SUI	STATE UNEMPLOYMENT INSURANCE
Exclude from your Incentive Budget	CALIF	FUTA	ADD'L FUTA
Include in your Incentive Budget	CALIF	WC	WORKERS COMPENSATION
Include in your Incentive Budget	CALIF	VAC	VACATION ACCRUAL
Include in your Incentive Budget	CALIF	HOL	HOLIDAY ACCRUAL*
OR *Budget holiday pay as a line item in budget if applicable - NOT BOTH			
Exclude from your Incentive Budget	CALIF	SIC	SICK PAY ACCRUAL
Include in your Incentive Budget	CALIF	IA %	CREW UNION PH&W
Include in your Incentive Budget	CALIF	IA %	TEAMSTER UNION PH&W
Include in your Incentive Budget	CALIF	DGA	DGA PH&W
Include in your Incentive Budget	CALIF	SAG	SAG EXTRAS PH&W
Include in your Incentive Budget	CALIF	EXT	EXTRAS CASTING FEE (do not include Handling Fees)
Include in your Incentive Budget	CALIF	ATL	ABOVE THE LINE HANDLING FEES
Include in your Incentive Budget	CALIF	BTL	BELOW THE LINE HANDLING FEES

CA TAX CREDIT - SUGGESTED EMPLOYER FRINGE SET UP IN ACCOUNTING DATABASE

Make sure your payroll company has this detailed information to set up your project's Fringe Table.

FREE FIELD 1 (Base Incentive)	FREE FIELD 2 (Uplift Incentive)			
NQ		FEDERAL	FUI	UNEMPLOYMENT INSURANCE
NQ		FEDERAL	FICA	FICA - SOCIAL SECURITY
NQ		FEDERAL	MED	FICA - MEDICARE
QW if Wage is QW	VU,MU or ZW (if applicable)	CALIF	SUI	STATE UNEMPLOYMENT INSURANCE
NQ		CALIF	FUTA	ADD'L FUTA
QW if Wage is QW	VU,MU or ZW (if applicable)	CALIF	WC	WORKERS COMPENSATION
QW if Wage is QW	VU,MU or ZW (if applicable)	CALIF	VAC	VACATION ACCRUAL
QW if Wage is QW	VU,MU or ZW (if applicable)	CALIF	VAC	VACATION PAID
QW if Wage is QW	VU,MU or ZW (if applicable)	CALIF	HOL	HOLIDAY ACCRUAL (if not budgeted separately)
QW if Wage is QW	VU,MU or ZW (if applicable)	CALIF	HOL	HOLIDAY PAID
NQ		CALIF	SIC	SICK PAY ACCRUAL
NQ		CALIF	SIC	SICK PAY PAID
QW if Wage is QW	VU,MU or ZW (if applicable)	CALIF	IA %	CREW UNION PH&W
QW if Wage is QW	VU,MU or ZW (if applicable)	CALIF	IA %	TEAMSTER UNION PH&W
QW if Wage is QW	ZW (if applicable)	CALIF	DGA	DGA PH&W
QW if Wage is QW	ZW (if applicable)	CALIF	SAG	SAG EXTRAS PH&W
QW if Wage is QW	ZW (if applicable)	CALIF	EXT	EXTRAS CASTING FEE (do not group/include with Handling Fees)
QW if Wage is QW	VU,MU or ZW (if applicable)	CALIF	ATL	ABOVE THE LINE HANDLING FEES
QW if Wage is QW	VU,MU or ZW (if applicable)	CALIF	BTL	BELOW THE LINE HANDLING FEES